



*Michael C. Schlachter, CFA
Managing Director and Principal*

December 1, 2008

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Divestment Policy

Dear Anne,

You requested Wilshire's opinion with respect to Staff's agenda item discussing the proposed new Policy for Divestment.

Recommendation

Wilshire recommends that the Policy Subcommittee accept Staff's recommended Divestment Policy and forward it to the Investment Committee for approval.

Discussion

The proposed policy is the result of much work by attorneys and consultants to find language that balances CalPERS' preference to constructively engage a targeted company or country for the benefit of all investors with the occasional need to divest, either as a result of legislative action or a situation that exceeds the ability of engagement to succeed.

We believe that this policy is sufficiently flexible to allow CalPERS' the opportunity to undertake constructive engagement when pressured to divest but to also permit CalPERS to divest from investments when there is no other option. In addition, the proposed policy also allows CalPERS to differentiate between investments in passive (index) funds and actively managed funds as well as to sell short an investment that may become the target of divestment (pursuant to Federal insider trading and front-running laws).

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Schlachter', is written over a light grey horizontal line.